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MONTANA CONSTITUTIONAL
CONVENTION

ANNUAL REPORT

OF THE

STATE BOARD OF EQUALIZATION

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TO THE
GOVERNOR OF MONTANA
HONORABLE FORREST H. ANDERSON

FOR THE
FISCAL YEAR ENDED
JUNE 30, 1971

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ANNUAL REPORT

OF THE

STATE BOARD OF EQUALIZATION

TO THE
GOVERNOR OF MONTANA
HONORABLE FORREST H. ANDERSON

FOR THE
FISCAL YEAR ENDED
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STATE OF MONTANA

BOARD OF EQUALIZATION
STATE CAPITOL BUILDING
HELENA, MONTANA

October 15, 1971

The Honorable Forrest H. Anderson
Governor
State of Montana
Helena, Montana 59601

Dear Governor Anderson:

In accordance with the requirements of Sections 82-4001 and 82-4002, R.C.M. 1947, the following report summarizing the activities and recommendations of the State Board of Equalization is submitted for the fiscal year ending June 30, 1971. The program format is that in existence during the reporting period and prior to the implementation of the Department of Revenue under the Executive Reorganization Act of 1971. The major recommendations contained in the report do relate to the Department of Revenue however.

Major accomplishments of the State Board of Equalization during the reporting period included:

1. *Established Multistate Tax Commission Joint Audit Program;*

2. *Provided more timely refund payments to taxpayers;*

3. *Established improved Inheritance Tax accounting and collection procedures;*

4. *Conducted sales ratio studies to determine proper valuations of real property.*

Major recommendations to be accomplished within available resources include:

1. *Implement the Department of Revenue under Executive Reorganization;*

2. *Develop an accounting and statistical reporting system in accord with generally accepted accounting principals for governmental units;*

3. Draft necessary legislative proposals;

4. Provide support for the Constitutional Convention delegates;

5. Continue and expand assessor-appraiser training school.

Respectfully submitted,

Keith L. Colbo

Keith L. Colbo
DIRECTOR OF REVENUE

Approved:

J. Morley Cooper

J. Morley Cooper
CHAIRMAN, STATE BOARD OF EQUALIZATION

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PRINCIPAL OFFICES AND OFFICERS

BOARD OF EQUALIZATION

J. MORLEY COOPER, CHAIRMAN
1800 Winne Avenue, Helena
Term of Office: March 1, 1969 through February 28, 1975

JOHN C. ALLEY, MEMBER
1016 Fifth Avenue, Helena
Term of Office: March 1, 1967 through February 28, 1973

RAY J. WAYRYNEN, MEMBER
Canyon Ferry, Helena
Term of Office: March 1, 1971 through February 28, 1977

DEPARTMENT OF REVENUE

KEITH L. COLBO, DIRECTOR OF REVENUE

JAMES MADISON, ADMINISTRATOR - MISCELLANEOUS TAX DIVISION

VERNON MILLER, ADMINISTRATOR - PROPERTY TAX DIVISION; SECRETARY TO THE BOARD OF EQUALIZATION

THOMAS STOLL, ADMINISTRATOR - INHERITANCE TAX DIVISION

HOWARD VRALSTED, ADMINISTRATOR - INCOME AND CORPORATION LICENSE TAX DIVISION

ROBERT WILSON, ADMINISTRATOR - MOTOR FUEL TAX DIVISION

PRINCIPAL OFFICE

Sam W. Mitchell Building, Helena

GENERAL ADMINISTRATION	Section 84-705, R.C.M. 1947
INCOME AND CORPORATION LICENSE TAXES:	
Corporation License Tax	Title 84, Chapter 15, R.C.M. 1947
Personal Income Tax	Title 84, Chapter 49, R.C.M. 1947
MOTOR FUEL TAXES	
Allocation to State Parks	Chapter 251, Laws of 1967; Section 32-2601, R.C.M. 1947
Distributors Gasoline License Tax Act	Chapter 369, Laws of 1969; Sections 84-1845 through 84-1861, R.C.M. 1947
Importers Tax on Gasoline Purchased Out-of-state and Used In-state	Chapter 174, Laws of 1955; Sections 84-6301 through 84-6308, R.C.M. 1947
Special Fuel Tax Act	Chapter 162, Laws of 1955; Sections 84-1830 through 84-1844, R.C.M. 1947
State Aeronautics Commission Allocation	Chapter 120, Laws of 1949;Section 1-501, R.C.M. 1947
PROPERTY TAXES	Chapter XII, Constitution of Montana; Title 84, R.C.M. 1947; Sections 84-429.7 through 84-429.12, R.C.M. 1947; Section 84-708, R.C.M. 1947
INHERITANCE TAXES	Sections 91-101 through 91-4321;Sections 91-4401 through 91-4467;Sections 91-5301 through 91-5312, R.C.M. 1947
STORE AND TOBACCO TAXES:	
Cigarette License & Cigarette Tax	Title 84, Chapter 56, R.C.M. 1947
Minimum Cigarette Prices	Title 51, Chapter 3, R.C.M. 1947
Store License	Title 84, Chapter 24, R.C.M. 1947
Tobacco Products Tax	Title 84, Chapter 68, R.C.M. 1947

PRINCIPAL GOALS

The State Board of Equalization provides for the appraisal of all intercounty property, and assists Montana Counties in property tax assessment through supervision and guidelines. It also administers income, corporation, inheritance, motor fuel, and other taxes. The principal goal of the Board of Equalization is to provide for uniformity in the system of assessment and equalization of all taxes so that all property, persons, and corporations shall be taxed as required by the Montana Constitution and the Laws of Montana.

S U M M A R Y

PRIORITY	DESCRIPTION	PROGRAM
1.	Multistate Tax Commission Joint Audit Program	Income & Corporation License Taxes
2.	Prompt Refund of Tax Over-payments	Income & Corporation License Taxes
3.	Computer Audit Program	Income & Corporation License Taxes
4.	Improved Gasoline Reporting Procedures	Motor Fuel Taxes
5.	Inheritance Tax Accounting and Collection Procedures	Inheritance Taxes
6.	Field Audit Program	Miscellaneous Taxes (Store & Tobacco Taxes)
7.	Sales Ratio Studies	Property Taxes
8.	Assessor - Appraiser School	Property Taxes

D E S C R I P T I O N

1. MULTISTATE TAX COMMISSION JOINT AUDIT PROGRAM

The Multistate Tax Commission joint audit program was implemented and one audit completed with a resulting deficiency assessment. In addition, several major deficiency tax cases involving multistate corporations were concluded without litigation.

2. PROMPT REFUND OF TAX OVER-PAYMENTS

The income tax verification computer program was refined to select for audit those returns with a high probability of error factors. As a result, an earlier clearance and refund was made to those refund returns acceptable as filed.

3. COMPUTER AUDIT PROGRAM

The computer audit program of the Income and Corporation License Tax Division was refined to select for desk visual audit those returns having both substantial liability and/or high probability of error.

4. IMPROVED GASOLINE REPORTING PROCEDURES

Tax reporting procedures of gasoline distributors were expanded for the purpose of ascertaining a complete accounting of gasoline exchanges between oil companies and the amount of gasoline subject to license tax.

5. INHERITANCE TAX ACCOUNTING AND COLLECTION PROCEDURES

As a result of recent legislative and administrative changes, a complete and current accounting and collection process is now in effect for Montana Inheritance Tax revenues.

6. FIELD AUDIT PROGRAM

A concentrated field audit program in the area of Miscellaneous Taxes has resulted in increased revenues and taxpayer compliance.

7. SALES RATIO STUDIES

The continuation of sales ratio studies is proving to be of benefit to the State and counties in determining proper valuations of real property.

D E S C R I P T I O N _ (Continued)

8. ASSESSOR - APPRAISER SCHOOL

The training program sponsored by Montana State University and the State Board of Equalization has encouraged greater proficiency in assessment and appraisal techniques at the local level.

S U M M A R Y

PRIORITY	RECOMMENDATION	PROGRAM
1.	Implement Executive Reorganization in the Department of Revenue	General Administration
2.	Examine and Evaluate all Data Processing Programs Conducted by the Department	General Administration
3.	Develop Meaningful Accounting and Statistical Data	General Administration
4.	Utilize Multistate Tax Commission	Income & Corporation License Taxes
5.	Develop and Justify Legislative Proposals	General Administration
6.	Standardize and Publish Regulations	General Administration
7.	Expansion of the Assessor - Appraiser Training School	Property Taxes

D E S C R I P T I O N

1. IMPLEMENT EXECUTIVE REORGANIZATION IN THE DEPARTMENT OF REVENUE

The implementation of the Department of Revenue under Executive Reorganization requires a complete review of program activities and resources in order to accomplish the most effective organizational structure to accomplish the goals of this Department.

2. EXAMINE AND EVALUATE ALL DATA PROCESSING PROGRAMS CONDUCTED BY THE DEPARTMENT

The Data Processing Programs of the Department must be reviewed to determine their adequateness in present day tax administration. The evaluation should be made in cooperation with the Data Processing Division of the Department of Administration to determine the most economical and efficient usage of computer technology.

3. DEVELOP MEANINGFUL ACCOUNTING AND STATISTICAL DATA

Effective tax administration requires that timely and meaningful accounting and statistical data be developed as a by-product of processing and collection activities conducted by this agency. The data developed should meet the information requirements of the Governor, Legislature, and the general public as it relates to State and local tax matters.

4. UTILIZE MULTISTATE TAX COMMISSION

The Department of Revenue must, to a greater extent, utilize the Multistate Tax Commission resources in the area of joint audits of multistate corporations to insure compliance with Montana Statutes. As an alternative, or supplement, to this effort, an in-house auditing capability should be developed to solve Montana's problem in auditing multistate corporations.

5. DEVELOP AND JUSTIFY LEGISLATIVE PROPOSALS

As the State taxing agency, the Department of Revenue is in a position to advise and recommend on Montana tax policy. In addition, the agency is in a position to recommend procedures to reduce administrative procedures and simplify taxpayer compliance as well as insure full collection.

6. STANDARDIZE AND PUBLISH REGULATIONS

During the course of years, a multitude of administrative rules and regulations dealing with the administration of the various taxes have been promulgated by the State Board of Equalization. At the present time, it is difficult for an employee of the Department or a taxpayer to know all of the rules and regulations currently in effect. For this reason, a concerted

D E S C R I P T I O N (Continued)

effort must be made to gather and publish in understandable form all rules and regulations adopted by the State Board of Equalization.

7. EXPANSION OF THE ASSESSOR - APPRAISER TRAINING SCHOOL

The Assessor - Appraiser School conducted each year should be strengthened and expanded in a manner to encourage greater proficiency in assessment and appraisal techniques at the local level.

PROGRAM: GENERAL ADMINISTRATION

GOAL

To support the activities of the State Board of Equalization by providing administrative support to all program activities of the agency and to administer all taxes directly collected by the program.

OBJECTIVES

To develop a meaningful and timely program accounting system;

To develop a personnel system for the Department;

To maintain taxpayer grievance procedures;

To document and publish all rules and regulations promulgated by the State Board of Equalization.

ACHIEVEMENTS

Maintained all current program support activities such as purchasing, accounting, and inventories.

All taxpayer greviences and legal proceedings have been handled on a timely basis.

PERFORMANCE INDICATORS

	. . . FISCAL YEAR . . .	
	1969-1970	1970-1971
COST:	$ 163,104	$ 176,229
PERFORMANCE:		
Claims Processed	1,327	1,298
Purchase Orders Processed	107	82

PROGRAM: INCOME AND CORPORATION LICENSE TAXES

GOAL

The ultimate goal of the Income and Corporation License Tax Program is to collect no less and no more than the taxes legally due under the terms of the Laws of the State of Montana.

OBJECTIVES

To minimize the number of erroneous returns filed, minimize delinquencies in filing and payments of tax, collect all delinquent tax, and to process all verified over-payment of tax at the earliest possible date. A concerted effort was made to impose penalities in all delinquent cases immediately upon receipt of the returns.

ACHIEVEMENTS

The Multistate Tax Commission joint audit program was activated and one audit was completed involving a large corporation doing business in Montana, with a resulting deficiency assessment of 26,000 dollars.

We successfully concluded, without litigation, several large deficiency tax cases involving multistate corporations.

Our computer verification program was refined to select for visual audit those 1970 returns having both substantial tax liability and high probability of error factors.

PERFORMANCE INDICATORS

	. . . FISCAL YEAR . . .	
	1969-1970	1970-1971
COST:	$ 591,033	$ 609,263
PERFORMANCE:		
Collections:		
Income Tax	$38,870,847	$42,381,455
Corporation License Tax	9,595,903	9,545,769
Total Collections	$48,466,750	$51,927,224

PROGRAM: MOTOR FUEL TAXES

GOAL

In accordance with Montana Laws, the goal of the Motor Fuel Taxes Program is the collection of motor fuel taxes from gasoline distributors, special fuel users, and special fuel dealers; and the refund of motor fuel taxes for off-highway use.

OBJECTIVES

To adopt uniform legislation and regulations with other states to facilitate proper filing of tax reports and proper payment of tax due;

To continue and further cultivate an active audit program through organization and training;

To continue updating tax reporting procedures.

ACHIEVEMENTS

Tax reporting procedures of gasoline distributors were expanded for the purpose of ascertaining a complete accounting of gasoline exchanges between oil companies and the amount of gasoline subject to the license tax.

Analysis was made of tax reporting procedures and compliance provisions of special fuel users for those users who use special fuels in recreational and passenger type vehicles.

Audit examinations were conducted in-state and out-of-state on gasoline distributors, dealers, and interstate and intrastate carriers.

PERFORMANCE INDICATORS

	. . . F I S C A L Y E A R . . .	
	1969-1970	1970-1971
COST:	$ 193,612	$ 204,466
PERFORMANCE:		
Collections		
Taxes:		
Gasoline License Tax	$25,971,716	$28,001,577
Diesel Fuel Tax	4,733,977	5,491,421
Liquid Petroleum Gas Tax	54,253	43,831
Fees:		
Special Fuel Trip Permits	172,860	208,480
Gasoline Dealer Permits	788	769
Gasoline Refund Permits	2,680	1,672
Aviation Dealer/User Permits	790	855
Total Collections	$30,937,064	$33,748,605

PROGRAM: PROPERTY TAXES

GOAL

All programs are directed to the satisfaction of the Constitutional and Statutory mandate to achieve a fair, just, and equitable valuation of all taxable property among counties, between different classes of property, and between individual taxpayers, and to cooperate fully with county taxing authorities in the effort to reach these goals.

OBJECTIVES

The continuation and expansion of the assessor - appraiser training school;

Increased effort will be made to obtain the enactment of a "Realty Transfer Act" to minimize the difficulty of discovering and utilizing current market values;

To encourage legislation designed to establish professional qualifications for appraisers and assessors.

ACHIEVEMENTS

Sales ratio studies are continuing and are proving to be of great value, both to the State and the counties, in the determination of proper valuations of real property, and in exposing the extent of inequities between assessments of similar properties;

The assessor - appraiser school training program, sponsored jointly by Montana State University and this division, is proving to be a valuable adjunct to the Board of Equalization's effort to develop highly skilled staff, and to encourage greater proficiency in assessment and appraisal techniques at the local level;

Improvements in the degree of uniformity in the assessment of taxable properties in Montana is readily apparent. Staff in this division has been expanded with the addition of an industrial appraiser and a forestry specialist position.

PERFORMANCE INDICATORS

	. . . F I S C A L Y E A R . . .	
	1969-1970	1970-1971
COST:	$ 90,833	$112,771

PROGRAM: INHERITANCE TAXES

GOAL

The goal of this program is to obtain for the State of Montana the maximum amount of taxes under existing Laws.

OBJECTIVES

To review the forms, rules, and regulations of other states for comparative purposes with Montana forms to evaluate their effectiveness.

To improve the administration of the abandoned property and escheated estate Laws through better accounting procedures, improved administration, and by published rules and regulations.

ACHIEVEMENTS

The Forty-Second Legislative Assembly made significant changes in the Laws governing the administration of this program.

Duplication of effort by this Department and the State Treasurer's Office was eliminated by amending Sections 91-4415, 4418, 4437, and 4450, by relieving the State Treasurer of the accounting responsibility for inheritance taxes except for the actual collection of the moneys deposited; and requiring the county treasurers to deposit all inheritance taxes collected with the State Treasurer on a monthly basis and to report such deposit to the Board of Equalization.

On April 1, 1971, the Inheritance Tax Program became custodian of the estimated inheritance tax deposits; these funds were formerly handled by the various district courts.

PERFORMANCE INDICATORS

	. . . F I S C A L Y E A R . . .	
	1969-1970	1970-1971
COST:	$ 36,320	$ 38,131
PERFORMANCE:		
Total Collections	$4,233,429	$3,645,252

PROGRAM: STORE AND TOBACCO LICENSE TAXES (MISCELLANEOUS TAX DIVISION)

GOAL

The administration and collection of all store and tobacco tax revenues for the State of Montana.

OBJECTIVES

Under the reorganized Department of Revenue, to collect twenty-three miscellaneous taxes and licenses that are administered by the Department.

ACHIEVEMENTS

Compliance emphasis was placed on the new tobacco products which increased collections 13.6 percent over the 1970 Fiscal Year.

PERFORMANCE INDICATORS

	. . . F I S C A L Y E A R . . .	
	1969-1970	1970-1971
COST:	$ 77,310	$ 68,074
PERFORMANCE		
Collections:		
Chain Store License Tax	$ 214,257	$ 214,150
Cigarette License Fees	25,765	21,615
Cigarette Tax	5,844,687	6,678,695
Tobacco Products Tax	210,391	239,133
Total Collections	$6,295,100	$7,153,593

PROGRAM COST SUMMARY

PROGRAM	FISCAL YEAR COSTS 1969-1970	1970-1971	Increase (Decrease)
GENERAL ADMINISTRATION	$ 163,104	$ 176,229	$ 13,125
INCOME & CORPORATION LICENSE TAXES	591,033	609,263	18,230
MOTOR FUEL TAXES	193,612	204,466	10,854
PROPERTY TAXES	90,833	112,771	21,938
INHERITANCE TAXES	36,320	38,131	1,811
STORE & TOBACCO LICENSE TAXES	77,310	68,074	(9,236)
TOTAL	$1,152,212	$1,208,934	$ 56,722

PROGRAM COST DETAIL

PROGRAM	1970 1971 FY TOTAL	PERSONAL SERVICES	OPERATING EXPENSES	CAPITAL
GENERAL ADMINISTRATION	$ 176,229	$ 148,032	$ 26,832	$ 1,365
INCOME & CORPORATION LICENSE TAXES	609,263	386,170	218,677	4,416
MOTOR FUEL TAXES	204,466	145,737	50,466	8,263
PROPERTY TAXES	112,771	84,226	25,403	3,142
INHERITANCE TAXES	38,131	32,687	4,844	600
STORE & TOBACCO LICENSE TAXES	68,074	51,414	15,933	727
TOTAL	$1,208,934	$ 848,266	$ 342,155	$ 18,513

SOURCE OF FUNDING

GENERAL FUND	$ 794,911
EARMARKED REVENUE FUND:	
Highway Account	197,456
Public School Equalization Account	183,191
Aeronautics Commission Account	4,999
Cigarette Enforcement Account	21,367
REVOLVING FUND:	
Board of Equalization Audit Account	7,010
TOTAL	$1,208,934